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**CROWS NEST INDUSTRIES LIMITED
SEVENTY-FOURTH ANNUAL REPORT**

FOR THE YEAR ENDED DECEMBER 31, 1970

Including Wholly-Owned Subsidiary Companies

Established 1897

1970



Corporate information

OFFICERS

THOMAS F. GLEED, *Chairman*

WILLIAM R. PRENTICE, *President*

M. BRUCE PEPPER, *Vice President, Administration and Finance*

CLEM GARSIDE, *Vice President, Forest Products*

BRIAN C. PINNELL, *Assistant Secretary-Treasurer, Comptroller*

TRANSFER AGENTS

CANADA PERMANENT TRUST COMPANY, *Toronto*

BANKERS TRUST COMPANY, *New York*

REGISTRARS

NATIONAL TRUST COMPANY, LIMITED, *Toronto*

MANUFACTURERS HANOVER TRUST COMPANY, *New York*

SHARE LISTING

TORONTO STOCK EXCHANGE — *ticker abbreviation CNC*

AUDITORS

CLARKSON, GORDON & CO., *Calgary*

BANKERS

CANADIAN IMPERIAL BANK OF COMMERCE

SEATTLE-FIRST NATIONAL BANK

COUNSEL

DAVIS & COMPANY, *Vancouver*

LANE, POWELL, MOSS & MILLER, *Seattle*

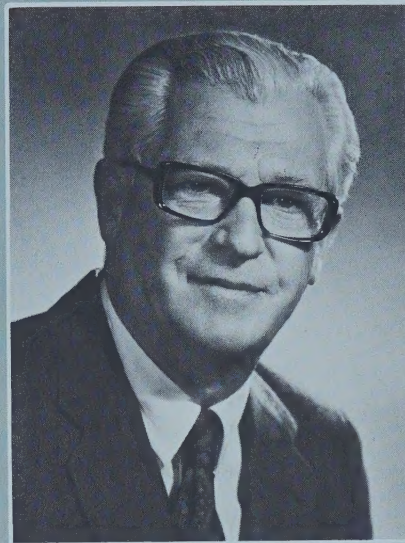
HEAD OFFICE

FERNIE, BRITISH COLUMBIA

Board of Directors



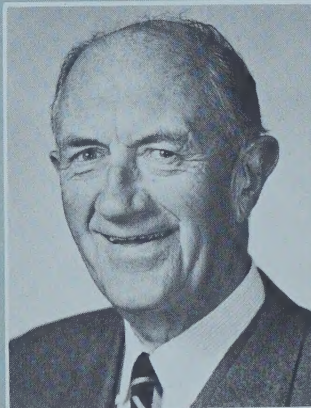
THOMAS F. GLEED



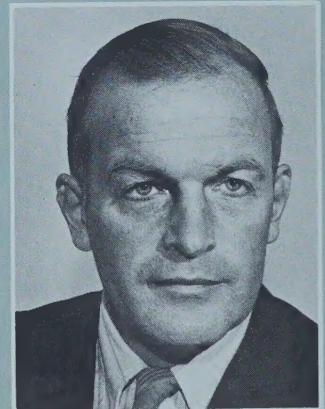
WILLIAM R. PRENTICE



NEIL B. IVORY



HENRY C. JUDD



JOHN W. PITTS



GEORGE V. POWELL



F. DREWE PRATT



D. E. SKINNER

Board of Directors

THOMAS F. GLEED, Seattle
Chairman

WILLIAM R. PRENTICE, Fernie
President

NEIL B. IVORY, Montreal
President, Woodford Investments Ltd.

HENRY C. JUDD, Menlo Park
Retired

JOHN W. PITTS, Vancouver
President, Okanagan Helicopters

GEORGE V. POWELL, Seattle
Lawyer

F. DREWE PRATT, Vancouver
Lawyer

D. E. SKINNER, Seattle
Executive

Subsidiary Companies

CROW'S NEST PASS ELECTRIC LIGHT & POWER
COMPANY LIMITED

CROWS NEST FOREST PRODUCTS COMPANY LIMITED

THE CROW'S NEST PASS OIL & GAS COMPANY, LIMITED

CROWS NEST PLYWOODS LIMITED

EAST KOOTENAY LUMBER COMPANY LIMITED

E. C. LETCHER LUMBER COMPANY LIMITED

FERNIE EQUIPMENT COMPANY LIMITED

GOLD CREEK TIMBER COMPANY LIMITED

KNIGHT LUMBER COMPANY LIMITED

KOOTENAY AND ELK RAILWAY COMPANY

MORRISSEY, FERNIE & MICHEL RAILWAY COMPANY

ST. MARYS LUMBER CO. LTD.

TRANSPAC CORPORATION

Chairman's Statement to Shareholders

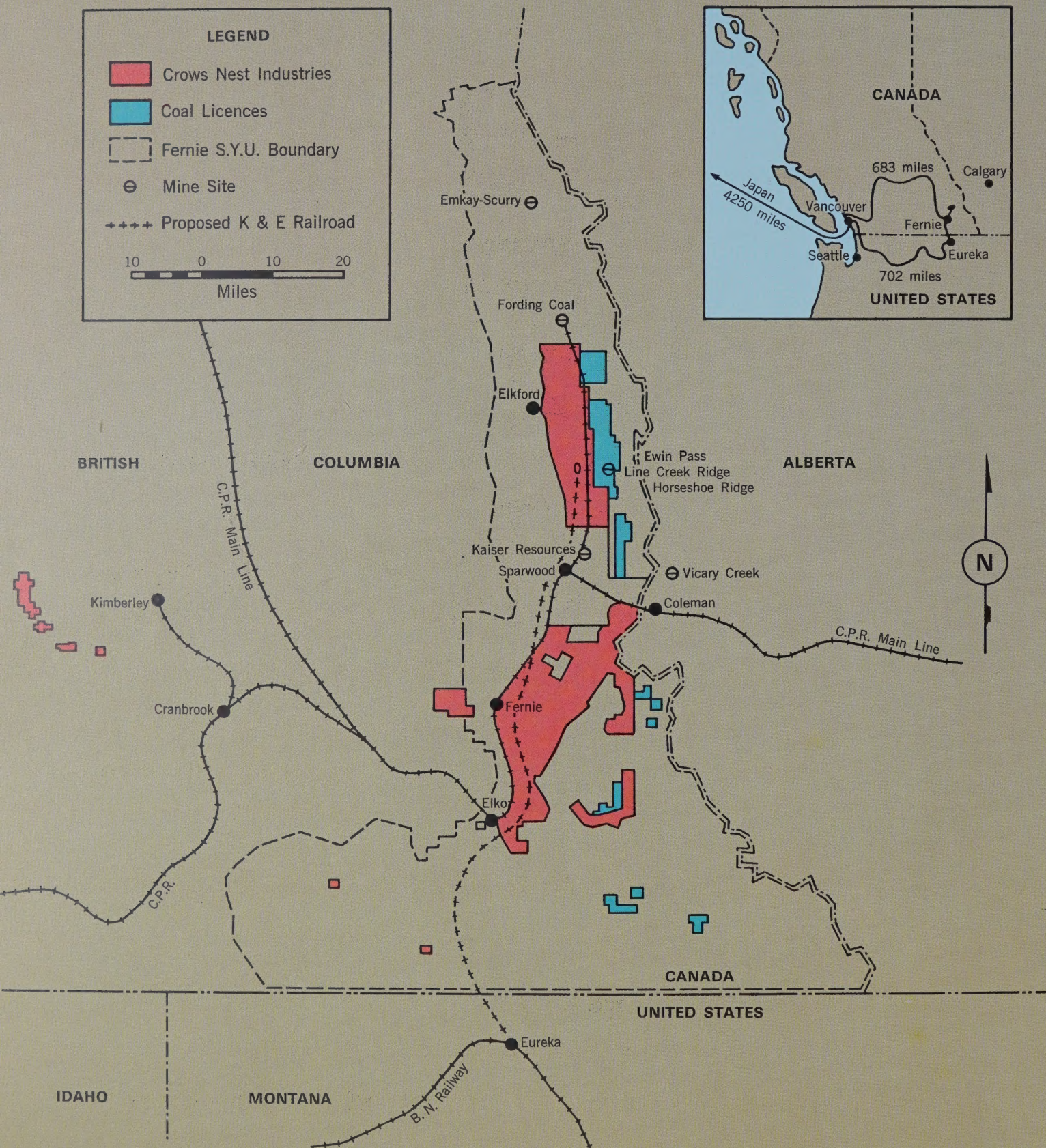
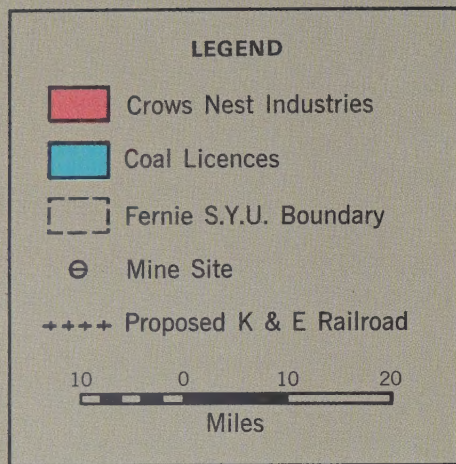
Your Company, with its wholly-owned subsidiaries, continued to operate at a loss in 1970. Depressed markets for our sawmill production, high interest costs, and erosion of offshore log trading combined to produce a loss from operations for the year of \$2,726,368. Further, you will note that we have provided for a loss of \$2,512,795 resulting from the sale, on March 19, 1971, of our total holdings of Kaiser Steel Corporation stock. Proceeds of this sale will be used to reduce bank borrowings.

Throughout 1970, market prices for spruce lumber, principal product of our Elko complex, remained at the low levels of late 1969. The favourable exchange premium on shipments to the U.S. virtually disappeared when the Canadian dollar was freed in May. Net returns were further reduced when two U.S. rail freight increases were not reflected in correspondingly higher delivered prices.

In the face of a continued short-term soft market for lumber, Crows Nest suspended logging in late November. Use of mill inventories not only conserved cash flow but carried the Company into a stronger market early in 1971. Logging was resumed in February.

In September, 7-months' negotiations without work stoppage resulted in a 2-year labour contract for interior B.C. mills. The

Property Map of Crows Nest Industries



pattern set by the coastal settlement, in excess of the Government's 6% guidelines, was reflected in this agreement.

During the break-in period of our new sawmill, operations were refined and revised so that at the present time we are in the area of reasonable production.

Exploration during 1970 centered on the large open-pit coal reserve of Line Creek Ridge and the new Ewin Pass deposit.

Extensive testing indicates vast reserves of metallurgical-grade coking coal available from both areas. Reserves have been confirmed by top consultants and preliminary feasibility studies are complete.

Proven and partially-proven reserves from our principal areas are more than sufficient to justify profitable operation.

These could comfortably support long-term domestic and foreign contracts of a minimum 3,000,000 tons per year metallurgical coal in addition to the market for thermal coal.

While additional exploration is advisable, adequate reserves have now been established, allowing suspension of field work which represented an expenditure of \$782,000 in 1970.

Our working interest in Alberta oil and gas fields continues to be a satisfactory and profitable asset.

An upward adjustment in the price of crude oil, additional gas sales and an increase in the allowables from the various reservoirs all combined to improve 1970 results.

Net cash flow from this source in 1970 was in excess of \$652,000.

Over the years, management has been unable to profitably broaden the scope of our wholly-owned subsidiary, Transpac Corporation. During the past year, its only previously profitable area of activity, export of logs to Japan, became uncertain.

As a result, we have sold this Company to an international trading company who will fit it into their export division.

Proceeds from the sale of these assets leaves Transpac Corporation with no debt, all capital funds intact, plus a reasonable amount of undistributed profit.





On November 20, 1969 the Kootenay and Elk Railway Company, a wholly-owned subsidiary of Crows Nest, applied to the Canadian Transport Commission for orders necessary to proceed with construction of a railway from our Line Creek coal properties to Roosville West. At that point traffic will be delivered to the Burlington Northern Railway.

The Transport Commission held hearings on the applications in May and December 1970, and in January 1971. Arguments were completed in mid-March and we are satisfied with the progress of the hearings.

At this writing, we continue to be faced with a serious shortage of railcars for shipment of our lumber products, an industry-wide problem which speaks for itself. This, coupled with the emergence of a market for thermal coal in the U.S. Pacific Northwest, with the potential location of a thermal plant in Montana directly south of the Crows Nest coal fields, underscores the need for the K. & E.

Principal adverse factors which combined to produce the operating loss in 1970 were:

- (1) Lumber prices averaging 22% lower than 1969 with no strong periods throughout the year.
- (2) Severe credit restrictions imposed by the Canadian chartered banks compelling the Company to supplement borrowing for the short term on the higher cost Euro-dollar market.
- (3) Revaluation of the Canadian dollar with resultant loss of premium on U.S. shipments which comprise 70% of our lumber trade.
- (4) I.W.A. settlement resulting in 13% wage increase in our sawmill.
- (5) A severe deterioration in the log export market, reflecting a slow-down in Japan's growth.

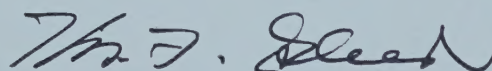
Fixed asset expenditures were kept to a minimum during the year. All possible major capital outlays for forest product operations have been deferred until a contribution to cash flow arises from that source. Chief efforts in this area have been directed towards maximizing throughput and minimizing operating costs.

Additional cash expenditures were required for exploration and to support the Kootenay and Elk Railway-Transport Board hearings.

A dividend of 15 cents was paid in March of 1970 marking the 53rd consecutive year Crows Nest Industries Limited has paid a cash dividend to its shareholders. June and December dividends were paid in stock at the rate of one share for every 100 shares owned, except for shares owned by a subsidiary.

Crows Nest is on the threshold of a challenge similar to that which led to the maximizing of its former Balmer reserves.

With our asset position in coal, oil, gas and timber, there is much that can be made profitable with good management.



THOMAS F. GLEED
Chairman

March 22, 1971



CROWS NEST INDUSTRIES LIMITED
(Incorporated under the laws of Canada)
AND WHOLLY OWNED SUBSIDIARY COMPANIES

consolidated balance sheet december 31, 1970 and 1969

ASSETS	1970	1969
CURRENT:		
Cash and term deposits	\$ 635,410	\$ 753,962
Accounts receivable	899,785	1,926,686
Inventories valued at the lower of cost and net realizable value	978,197	4,008,869
Prepaid expenses	45,878	123,880
	<u>2,559,270</u>	<u>6,813,397</u>
SHARES OF KAISER STEEL CORPORATION (Note 1)	<u>9,673,700</u>	<u>12,186,495</u>
FIXED, at cost (Note 2):		
Forest products –		
Timber cutting rights, roads and real estate less accum- ulated depletion of \$1,202,912 (1969 – \$850,980)	2,122,160	2,281,870
Plant and equipment less accumulated depreciation of \$2,540,957 (1969 – \$2,026,987)	5,815,178	6,372,374
Petroleum and natural gas –		
Acquisition and productive development costs less accum- ulated depletion of \$2,675,103 (1969 – \$2,600,398)	907,607	939,319
Production equipment less accumulated depreciation of \$1,032,058 (1969 – \$922,816)	489,608	507,040
Minerals –		
Acquisition, exploration and development costs	1,504,041	722,028
	<u>10,838,594</u>	<u>10,822,631</u>
OTHER:		
Mortgages receivable	23,094	32,070
Refundable deposits	60,399	156,439
Deferred railway representation costs, etc.	1,189,252	786,074
	<u>1,272,745</u>	<u>974,583</u>
	<u>\$24,344,309</u>	<u>\$30,797,106</u>

See accompanying notes to consolidated financial statements.

LIABILITIES	1970	1969
CURRENT:		
Bank loans (secured by accounts receivable, inventories, and shares of Kaiser Steel Corporation)	\$12,930,000	\$12,411,880
Accounts payable and accrued charges	1,319,868	2,974,455
	<u>14,249,868</u>	<u>15,386,335</u>
DEFERRED INCOME TAXES	<u>364,633</u>	<u>332,123</u>
SHAREHOLDERS' EQUITY:		
Capital –		
Authorized –		
25,000 3% cumulative redeemable preferred shares of \$100 par value each		
1,250,000 common shares of \$8 par value each		
Issued –		
807,922 common shares (Note 3)	6,464,243	6,346,667
Contributed surplus (Statement 2)	567,160	111,625
Capital surplus	1,300,000	1,300,000
Earned surplus (Statement 2)	2,173,889	8,095,840
	<u>10,505,292</u>	<u>15,854,132</u>
Less 62,050 shares of parent owned by subsidiary at cost ..	<u>775,484</u>	<u>775,484</u>
	<u>9,729,808</u>	<u>15,078,648</u>
On behalf of the Board:		
T. F. GLEED, <i>Director</i> .		
F. D. PRATT, <i>Director</i> .		
	<u>\$24,344,309</u>	<u>\$30,797,106</u>



THE FINE FOODS COMPANY
AND WHOLLY OWNED SUBSIDIARY COMPANIES

STATEMENT 2

Consolidated Statement of Retained Earnings
For the years ended December 31, 1970 and 1969

EARNED SURPLUS

	1970	1969
Balance, beginning of year	\$ 8,095,840	\$10,159,689
Net loss for the year (Statement 3)	5,239,163	1,515,467
Dividends paid:		
Cash	109,677	548,382
Stock (Note 3)	573,111	—
Balance, end of year	<u>\$ 2,173,889</u>	<u>\$ 8,095,840</u>

CONTRIBUTED SURPLUS

Balance, beginning of year	\$ 111,625	\$ 111,625
Excess of assigned value over par value of shares issued as stock dividends (Note 3)	455,535	—
Balance, end of year	<u>\$ 567,160</u>	<u>\$ 111,625</u>

See accompanying notes to consolidated financial statements.



AND WHOLLY OWNED SUBSIDIARY COMPANIES

	1970	1969
Sales:		
Forest products	\$ 6,307,031	\$ 5,031,336
Petroleum and natural gas	890,694	669,259
Foreign trading	5,184,210	5,488,898
	<u>12,381,935</u>	<u>11,189,493</u>
Cost of sales:		
Forest products	6,911,246	5,317,953
Petroleum and natural gas	219,546	194,837
Foreign trading	5,083,287	5,124,835
	<u>12,214,079</u>	<u>10,637,625</u>
Gross profit	<u>167,856</u>	<u>551,868</u>
Expenses:		
General and administrative	1,035,174	1,007,192
Interest and finance	1,229,430	668,866
Depreciation	774,682	620,312
Depletion	382,217	242,426
Exploration, development and survey	44,529	102,769
	<u>3,466,032</u>	<u>2,641,565</u>
Loss before other income	<u>3,298,176</u>	<u>2,089,697</u>
Other income:		
Cash payments including dividends from Kaiser shares resulting from 1968 sale of coal properties	594,149	635,061
Miscellaneous	64,872	86,792
Gain on sale of property	5,850	141,067
	<u>664,871</u>	<u>862,920</u>
Loss before income taxes	<u>2,633,305</u>	<u>1,226,777</u>
Income taxes (Note 5)	<u>93,063</u>	<u>288,690</u>
Loss before extraordinary item	<u>2,726,368</u>	<u>1,515,467</u>
Extraordinary item—loss on Kaiser shares (Note 1)	<u>2,512,795</u>	<u>-</u>
Net loss for the year	<u>\$ 5,239,163</u>	<u>\$ 1,515,467</u>
Per share (excluding shares held by subsidiary)		
Loss before extraordinary item	\$3.65	\$2.07
Extraordinary item	3.37	-
Net loss	<u>\$7.02</u>	<u>\$2.07</u>

See accompanying notes to consolidated financial statements.



CROWS NEST INDUSTRIES LIMITED
AND WHOLLY OWNED SUBSIDIARY COMPANIES

Consolidated statement of funds applied
for the years ended December 31, 1970 and 1969

	1970	1969
Loss before extraordinary item	\$ 2,726,368	\$ 1,515,467
Depreciation and depletion	(1,156,899)	(862,738)
Deferred income taxes	(32,510)	(127,765)
Cash loss from operations	1,536,959	524,964
Purchase of fixed assets – net	1,172,862	5,243,987
Deferred railway representation costs, etc.	403,178	210,452
Reduction of long term loans payable	–	1,400,000
Cash dividends paid to shareholders	109,677	548,382
Refund of deposits, etc.	(105,016)	(120,871)
Total funds applied and increase in working capital deficiency	<u>\$ 3,117,660</u>	<u>\$ 7,806,914</u>

See accompanying notes to consolidated financial statements.

To the Shareholders of
Crows Nest Industries Limited.

We have examined the consolidated balance sheet of Crows Nest Industries Limited and its wholly-owned subsidiary companies as at December 31, 1970 and the consolidated statements of profit and loss, earned surplus, contributed surplus and funds applied for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of Crows Nest Industries Limited and its wholly-owned subsidiary companies at December 31, 1970, the results of their operations and the application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada.
March 1, 1971, except for
Note 1 as to which the
date is March 19, 1971.

CLARKSON, GORDON & CO.,
Chartered Accountants.



Kaiser Steel Corporation (INCORPORATED IN CALIFORNIA)
AND WHOLLY OWNED SUBSIDIARY COMPANIES

Notes to Consolidated Financial Statements
Continued

The Kaiser Steel Corporation shares were received in 1968 as partial consideration for the sale in that year of the Company's coal properties and related assets. In addition, the Company is also entitled to receive up to \$34 million at the rate of 50c per ton of coal produced and shipped after January 1, 1977, from the properties sold. Such receipts will be included in income as received.

On March 19, 1971, the Company sold its holdings of Kaiser shares for a cash consideration of \$9,673,700. Provision has been made for the resulting loss in the accompanying financial statements.

Depreciation is based on the estimated useful lives of the assets and is provided on the straight-line method for the new sawmill and the reducing-balance method for other plant and equipment.

Depletion is provided on timber cutting rights and oil and gas interests on a unit-of-production method based on estimated reserves of timber, oil and gas.

During the year the Company issued 14,697 common shares valued at \$573,111 in payment of two stock dividends each of which was declared on the basis of one common share for each 100 shares outstanding (excluding shares owned by subsidiary). The par value of the shares issued, \$117,576, was credited to share capital and the balance to contributed surplus.

Remuneration of eight directors	\$ 23,200
Remuneration of seven officers	\$191,062

Two officers are also directors.

Income taxes provided in the accompanying financial statements consist principally of withholding tax paid on investment income.

Income tax reductions which may be realized in future years as a result of carrying forward operating losses will be included in income in the years in which the losses are utilized.



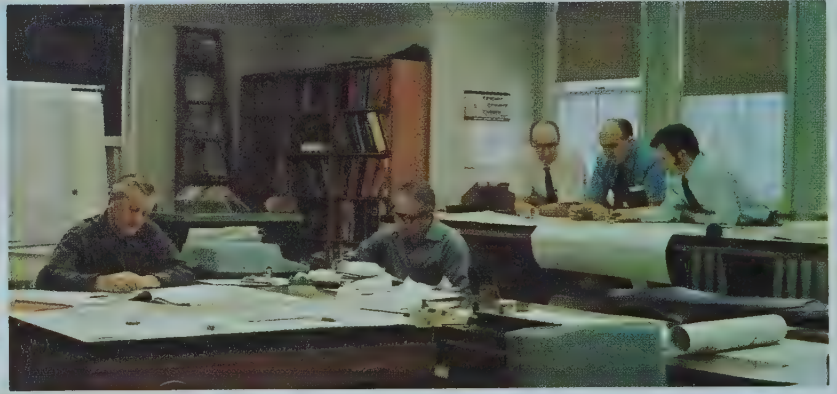
CROWN FOREST INDUSTRIES LIMITED
AND WHOLLY OWNED SUBSIDIARY COMPANIES

eight-year summary of comparative highlights

	1970	1969
Sales of all products	\$ 12,381,935	\$11,189,493
Profit (loss) before extraordinary items	(2,726,368)	(1,515,467)
Extraordinary items	(2,512,795)	—
Net profit (loss) for year	(5,239,163)	(1,515,467)
Profit (loss) per common share*		
From operations	\$ (3.65)	\$ (2.07)
Extraordinary items	(3.37)	—
Total	(7.02)	(2.07)
Common shareholders' equity*	9,729,808	15,078,648
Equity per common share*	\$13.04	\$20.62
Cash dividends declared	109,677	548,382
Dividends per common share	15¢+2%stk*	75¢
Depreciation and depletion	1,156,899	862,738
Capital expenditures	1,261,916	5,425,070
Working capital	(11,690,598)	(8,572,938)
Production—coal, coke and breeze (tons)	—	—
Production—lumber (fbm) <i>Foot Board Measure</i>	91,822,345	53,823,668
Production—oil (bbls)	421,398	337,463
Number of employees at year-end	420	428
Common shares at year-end*		
Number outstanding	745,872	731,175
Percentage held by Canadians	41%	40%
Other	59%	60%
Number of shareholders at year-end		
Canadian	258	255
Other	237	228

*Excluding shares held by subsidiary.

1968	1967	1966	1965	1964	1963
\$12,001,891	\$15,965,891	\$14,070,916	\$13,072,834	\$ 8,868,843	\$ 8,580,081
479,449	380,964	469,183	488,863	494,922	720,389
7,020,125	—	85,329	597,035	566,840	—
7,499,574	380,964	554,512	1,085,898	1,061,762	720,389
\$.66	\$.52	\$.65	\$.68	\$.69	\$ 1.01
9.59	—	.12	.83	.79	—
10.25	.52	.77	1.51	1.48	1.01
17,142,497	10,102,823	10,235,615	10,146,722	9,569,615	9,044,193
\$23.45	\$13.91	\$14.12	\$14.12	\$13.38	\$12.65
548,025	544,256	540,619	551,756	536,340	549,503
75¢	75¢	75¢	75¢	75¢	75¢
637,450	1,134,975	1,318,585	1,184,957	795,570	773,931
2,394,660	1,089,638	1,803,848	2,848,548	2,518,488	510,036
(766,024)	472,797	888,041	1,246,482	2,192,182	2,109,941
167,617	1,105,387	1,009,003	924,531	978,441	902,049
39,489,957	47,831,535	68,813,323	68,375,793	24,275,253	17,435,569
205,728	191,174	170,008	182,933	224,063	230,492
344	818	830	935	823	754
731,175	726,550	724,675	718,425	715,120	715,120
26%	26%	30%	24%	18%	13%
74%	74%	70%	76%	82%	87%
252	305	364	311	247	201
261	253	275	314	355	403



Townsite, people and activities at the Crows Nest operations.

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CROWS NEST INDUSTRIES LIMITED



**Interim Report
To Shareholders**

JUNE 30, 1970

CROWS NEST INDUSTRIES LIMITED

Consolidated Comparative Interim Financial Statements

Semi Annual Report — Unaudited

Six Months Ended

June 30, 1970 June 30, 1969

Financial Information

Operating Profit (Loss) before depreciation and depletion	\$(924,385)	\$ 256,502
Dividends, interest and other income (Note 1)	327,851	455,287
	(596,534)	711,789
Deduct depreciation and depletion	541,071	349,557
	(1,137,605)	362,232
Income Taxes(Note 2)	185,783	173,858
Net profit (loss) for the period	<u>\$(1,323,388)</u>	<u>\$ 188,374</u>
Net profit (loss) per share	\$(1.81)	26¢
Cash Dividends paid per share (Note 3)	15¢	45¢

Production Information

Lumber F.B.M.	46,038,758	19,882,494
Oil BBLS.	193,717	159,016

Source and Application of Funds

Net loss (profit) for the year	\$ 1,323,388	\$(188,374)
Depreciation and depletion	541,071	349,557
Deferred income taxes	70,955	31,775
Cash loss (gain) from operations ...	711,362	(569,706)
Reduction (increase) loans payable (6,393)	1,371,256
Purchase of fixed and other assets (net)	669,655	2,985,500
Dividends to shareholders	109,676	329,029
Total funds applied and increase in working capital deficiency ...	<u>\$ 1,484,300</u>	<u>\$ 4,116,079</u>

REPORT

For the first six months and through August, expenses of operation continue to exceed income. The total adverse figure to June 30, 1970, is \$1,323,388 or \$1.81 per share.

While markets for wood products have not improved, we have made excellent progress in logging and milling operations, resulting in more acceptable costs throughout.

Combined with losses from our Forest Products Division, we have continued to engage in extensive and expensive exploration programs in our Tornado Mountain area.

Total operations, therefore, have led to continued deficit financing which we expect will continue throughout the year.

Our explorations for new coal reserves are having most favourable results, so our overall asset position is quite satisfactory.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

- Dividends, Interest and Other Income —
Includes cash payments received and receivable from Kaiser.
- Income Taxes 1970
Canadian companies are not permitted to file consolidated income tax returns. As a result, several subsidiary companies are in 1970 subject to tax on their profits despite the loss of the parent company.
- Dividends Paid
On June 8, 1970 the Board of Directors declared a 1% stock dividend payable July 31, 1970 to shareholders of record June 15, 1970.